Nova Scotia Municipal Finance Corporation
Business Plan 2005-2006

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Nova Scotia Municipal Finance Corporation

2005 - 2006 Business Plan

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Message from the Minister and the Chair

As the Minister of Service Nova Scotia and Municipal Relations I am the Minister responsible for the Nova Scotia Municipal Finance Corporation. The Nova Scotia Municipal Finance Corporation (NSMFC) is a crown corporation of the Province of Nova Scotia. The NSMFC was established by the Municipal Finance Corporation Act of the Legislature of the Province of Nova Scotia in 1979 and began business in January, 1980.

The corporation's purpose is to provide the lowest available cost financing to its clients which includes municipalities, municipal enterprises, school boards and hospitals. All municipalities, municipal enterprises must finance, their external capital requirements through the corporation. The municipal finance corporation concept is widely used in Canadian provinces as a cost effective, efficient means of raising long term debenture funds to finance municipal capital projects.

The NSMFC is forecast to have over five hundred and ninety million dollars ($590 m) in debentures outstanding at March 31, 2005. New debenture issues in 2005-2006 are estimated to be in the range of one hundred and twenty-five million dollars ($125 m) this will be balanced against debenture retirements of eighty-one million dollars ($81 m) in 2005-2006.

The corporation is governed by a Board of Directors appointed by the Governor-in-Council. Legislation requires that forty percent of the board be appointed on the recommendation of the Union of Nova Scotia Municipalities. Three full time staff of the corporation are supported through staff and resources from the provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations.

In July, 2004 the NSMFC conducted a survey of its clients seeking feedback on whether or not the NSMFC was fulfilling its mandate and meeting its client's needs as well as seeking input on the direction municipalities would like the NSMFC take in the future. The results of that survey reaffirmed that the NSMFC is meeting its core business of providing the lowest available cost of financing for municipal infrastructure projects and supported the direction that the NSMFC is moving toward - which is the development of programs and models that help build financial management knowledge in municipal governments. The results from the survey are used as baseline data for a number of the performance measures and outcomes detailed in the 2005-2006 business plan.

Mission Statement:

To provide capital infrastructure financing to its clients at the lowest available cost, within acceptable risk parameters, and to provide financial management advice and assistance to clients.

Planning Context:
The corporation faces a number of challenges and opportunities in meeting its strategic goals in the upcoming year.

- The NSMFC must ensure it has access to capital markets and that it has the financial and administrative ability to meet municipal government demand for capital infrastructure funding.

- Keeping abreast of developments in municipal government capital finance. As a specialist organization, the NSMFC is challenged to develop, maintain and demonstrate expertise in municipal government capital finance.

- Maintaining financial self sufficiency. In order to meet its mandate, the corporation must remain economically viable in both the shor. .nd long term. This includes a matching of assets and liabilities both to amount and maturity, maintaining banking arrangements and credit facilities, credit risk, adequate reserves, and the ability to manage administration expenses within its budget.

- Identifying client needs and responding to them. Opportunities exist to assist municipal governments in Nova Scotia with long term capital planning and financing options.

- Opportunity to develop partnerships with organizations such as the Federation of Canadian Municipalities to provide a conduit for low-cost loans for clients.

The major risk to the corporation is the availability of human and financial resources needed to carry out its mandate. Some resources are directly under the control of the Board whereas others are provided by provincial departments. The NSMFC will continue to work with these provincial departments to align both sets of priorities.

Strategic Goals:

The NSMFC's strategic goals are designed to assist the Government in is corporate goals of healthy and sustainable communities and fiscal sustainability. Capital infrastructure is a major component of economic development in both attracting and retaining business investment and promoting communities that are attractive places to live.

The following strategic goals have been developed to assist the NSMFC in meeting its mission of providing the lowest available cost of financing for municipal capital infrastructure and long term financial planning, and support the Provincial Government's priorities of economy, jobs and growth.

- To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters, to meet their particular debt structure and timing needs.

- Ensure access to capital markets through prudent management of all financial aspects of the corporation, which includes credit risk and asset/liability management.

- To help build financial management knowledge in municipalities and promote municipal capital project planning and financing.

Core Business Areas:

A. Providing capital financing at lowest available cost

- Provide financing for clients' approved funding requirements through the issuing of pooled debentures. Pooling of capital requirements allows the NSMFC to issue debentures in capital markets at rates lower than if single issues were placed for clients.

- Provide financing options for clients through the short term loan program and bridge financing program.

- Develop and review policies regarding the corporation's use of financial innovation techniques and instruments.

B. Prudent financial management of the corporation to ensure access to capital markets

- To ensure that an acceptable process is in place for evaluating the credit worthiness of the loans made by the corporation.

- To ensure the corporation's assets and liabilities are matched in both amount and maturity.

- Prudent administration of the corporation's financial resources to ensure that the corporation's administrative expenses and reserve balances are within approved policies.

C. To help build municipal financial management knowledge by encouraging municipal governments to develop and maintain a long term strategic approach to capital project planning and finance.

- To partner with municipal clients, Service Nova Scotia and Municipal Relations and the Association of Municipal Administrators (AMA) on the topic of capital planning and finance through the identification of relevant professional association resources.

- To develop best practises and models to help build financial management knowledge in municipal government.

- Maintain links with the investment community, public sector finance practitioners and academics and carry out research as required to enable the corporation to respond to changing client needs.

Priorities for Fiscal 2005-2006

The following details the actions, products and services that the NSMFC intends to carry out in order to fulfil the corporation's mission and meet its strategic goals.

A. Provide capital financing at the lowest available cost

- By issuing pooled debentures for the approved amount required to meet municipal borrowing requirements and lending a similar amount to municipal units and enterprises. New debenture issuance is expected to be in the one hundred and twenty-five million dollar range ($125 m), this is balanced against retirements of existing debenture in 2005-2006 of approximately eighty - one million ($81m).

- Pooling of capital requirements allows the NSMFC to access capital markets and achieve pricing based off the Province of Nova Scotia spread.

B. Prudent financial management of the corporation to ensure access to capital markets

- Obtain verification of credit worthiness from the Department of Service Nova Scotia and Municipal Relations (for municipal borrowers) prior to setting the parameters for pooled issues.

- Match the amount, term and timing of NSMFC debentures and loans to units.

- Management of the NSMFC's financial resources (budget and reserves) as per policies established by the corporation's Board of Directors.

- Development of a risk management strategy for the corporation to ensure business continuity

C. To help build municipalities financial management knowledge by encouraging municipal governments to develop and maintain a long term strategic approach to capital project planning and finance.

- Continue to provide a leadership role in the Financial Management Capacity Building Committee initiative to promote financial and budgeting policies to municipal governments in Nova Scotia.

- Roll out the Debt Affordability Model for use by municipal administrators. The Debt Affordability model is a tool for use by municipal councils to help answer the question of how much debt is too much debt for their municipal unit.

- Establish committees, as required by the Board, to study the merits of financial innovation regarding the introduction of new products and services. A key priority for 2005-2006 will be to analyze the impact of increased federalcost shared programs (primarily through gas tax revenue sharing) on the programs and services of the corporation.

- Work with the corporation's lead managers and other members of the investment community, staff of the Nova Scotia Department of Finance, other Municipal Finance corporations, and others involved in municipal capital financing, to identify evolving municipal government financial needs and the optimum means of satisfying them.

Budget Context Chart for 2005-2006

Nova Scotia Municipal Finance Corporation Estimated Budget Expenditures			
	2004-2005 Estimate	2004-2005 Forecast	2005-2006 Budget
	$ Thousands		
Total Program Expenses - Gross Current	340.5	326.1	318.1
Net Program Expenses - Net of Recoveries* (see note below)	0.0	0.0	0.0
Salaries and Benefits - Gross	232.8	232.4	233.6
Funded Staff (FTE'S) - Gross	3	3	3

* Note: The NSMFC is completely self funded. The costs of administration are covered through an administrative fee that is levied on all municipal loans and from interest revenue earned on short term investments.

Nova Scotia Municipal Finance Corporation Balance Sheet (as at March 31, 2004) (Audited)

ASSETS	
Current Assets:	
Cash	$ 36,715
Short term investments at amortized cost	4,187,000
Accrued interest receivable	10,284,626
Other receivables	331
Principal due within one year on loans to units	70,303,478
Long-term Assets:	
Loans to units	492,950,648
Less principal included in current assets	(70,303,478)
Investments at amortized costs	456,414
Deferred Charges:	
Discount on debenture debt	2,616,884
less accumulated amortization	(1,699,284)
Total Assets	**$ 508,833,334**
Liabilities and Equity	
Current Liabilities:	
Accounts payable	$ 39,428
Due to municipal units	133,286
Accrued interest payable	10,249,709
Principal due within one year on debenture debt	70,256,012
Accrued public service award	65,073
Long-term Debt:	
Debentures Payable	492,603,254
Less principal included in current liabilities	(70,256,012)
Deferred Credits:	
Discount on loans to units	2,611,192
Less accumulated amortization	(1,698,785)
Equity	
Reserve Fund	4,830,177
Total Liabilities and Equity	**$ 508,833,334**

Nova Scotia Municipal Finance Corporation
Statement of Revenue, Expenses and Reserve Fund (year ended March 31, 2004)
(Audited)

Revenue	
Interest on loans to units	$ 30,001,901
Amortization of discount on loans to units	251,819
Interest on short term investments	138,038
Current discount on loans to units	452,378
Total Revenue	30,844,136
Expenses	
Interest on debenture debt and short term loans	29,970,691
Amortization of discount on debenture debt	252,437
Debenture issue expense	267,875
Administrative expense	310,413
Total Expenses	30,801,416
Net Revenue	42,720
Reserve Fund, Beginning of Year	4,787,457
Reserve Fund, End of Year	**$ 4,830,177**

Nova Scotia Municipal Finance Corporation

Core Business Area: Providing capital financing at lowest available cost				
OUTCOME *(immediate or intermediate)*	**MEASURE** *(outcome-based; quality, efficiency/productivity, cost-effectiveness*	**DATA** *(survey results form % baseline data)*	**TARGET** *2007-2008*	**STRATEGIES** *to achieve target*
To provide the lowest available cost of financing to clients in a timely manner	Percentage of clients that are satisfied with the timing and processing of debenture issues. Regional Municipalities Rural Municipalities Towns	 50% 75% 89%	 100% 95% 95%	Explore aligning debenture issues with the construction completion schedule and capital budgeting process. Conduct exit surveys of units that participate in the debenture issue to measure satisfaction.
	Percentage of clients that agree that the debenture terms and structure are flexible enough to meet their needs. Regional Municipalities Rural Municipalities Towns	 50% 56% 89%	 100% 90% 95%	Improve the flexibility of short term financing program. Work with municipal units on financing options (payments and term). Communication of options through the use of web page and one on one consultations.
Lowest available cost of financing for clients	Quality of credit loans. Pricing received from lead managers in relationship to the Province of Nova Scotia's cost of funds.	Procedures ensure credit worthiness of loans. Provincial guarantee allows the MFC to price off the PNS spread	Regular review of loan procedures. Maintain access to the provincial guarantee	Maintain quality of portfolio, increase profile of NSMFC credit quality to maintain strong relationship with government to ensure their support of provincial guarantee

Nova Scotia Municipal Finance Corporation

Core Business Area: Prudent financial management of the corporation's resources to ensure access to capital markets				
OUTCOME *(intermediate or inter-mediate)*	**MEASURE** *(outcome-based; quality, efficiency/productivity, cost-effectiveness)*	**DATA** *(survey results form % baseline data)*	**TARGET** 2007-2008	**STRATEGIES** *to achieve target*
Ensure a sustainable source of funding is available for financing requests from clients and to ensure the operation of the corporation.	Client default rate. Default is defined as failing to make a principal or interest payment within five days of the due date.	0	0	Ensure that all loans are credit worthy. Review the current credit worthiness procedure to ensure it remains 100% effective. Review process for timely payment of loans.
	Matching of assets and liabilities. Similarity of aggregate amounts, terms and timing of debentures and loans.	Assets and liabilities are matched to term and timing.	Maintain matched amounts.	Match the term and timing of NSMFC debentures and loans to clients.
	Adoption of a risk management strategy	n/a	Plan adopted by 2005-2006	Research and develop a risk management framework for the corporation.

Nova Scotia Municipal Finance Corporation

Core Business Area: To help build municipal financial management knowledge by encouraging municipal governments to develop and maintain a long term strategic approach to capital project planning and finance.				
OUTCOME *(intermediate or inter-mediate)*	**MEASURE** *(outcome-based; quality, efficiency/productivity, cost-effectiveness)*	**DATA** *(survey results form % base line data)*	**TARGET** 2007-2008	**STRATEGIES** *to achieve target*
NSMFC client awareness of new financial products and features that may help municipal units.	Percentage of municipal units that are satisfied with products being offered by the NSMFC Regional Municipalities Rural Municipalities Towns	 100% 75% 89%	 100% 95% 98%	Regular communication with clients on the programs that the NSMFC is offering and developing through presentations at AMA regional meetings and conferences. Continued development of web page. One on one calls to clients to offer advice and assistance.
Improved products that respond to clients needs	Effective programs directed at clients needs.	Request for program development 1/3 - long term planning models, 1/3 - innovative financing 1/3 - educational programs	Development of programs that meet clients needs.	Survey clients to determine what types of educational programs and innovative financing they would like developed(2005-2006). Research and development of new programs based on results (2006-2007) Roll out Debt Affordabilty Model Analyse impact of new federal cost sharing programs to determine if the NSMFC's programs are responsive (2005-2006).

Nova Scotia Municipal Finance Corporation

Core Business Area: To build financial management knowledge by encouraging municipal government to adopt and maintain a professional approach to capital project planning and finance.				
OUTCOME *(intermediate or inter-mediate)*	**MEASURE** *(outcome-based; quality, efficiency/productivity, cost-effectiveness)*	**DATA** *(survey results form % baseline data)*	**TARGET** *2007-2008*	**STRATEGIES** *to achieve target*
Increased financial management knowledge in municipal units. Use of best practices and/or recommended practices in financial management decision making.	Increased awareness of best practices for financial management. Based primarily on GFOA programs.	30% of clients are aware of knowledge building programs offered by the NSMFC	75% awareness level	Regular communication with clients on the programs that the NSMFC is offering and developing through presentations at AMA regional meetings and conferences. Continued development of web page. Partnerships with the AMA on committees that develop financial management knowledge for municipalities.
	Broader access to financial resources - efficient use of resources and building of networks among financial administrators.	NSMFC website has been updated to provide information on the corporation	Post recommended best practises and benchmark data on the web site	Exposure to conferences that develop and promote best practices in financial management Continue to offer financial assistance in sponsoring professional financial administrator attendance at the GFOA Conference on an annual basis. Active participant in joint committees with the AMA.